Report

of the

Examination of

Farmers Town Mutual Insurance Company

Tomah, Wisconsin

As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, *Governor*
Connie L. O'Connell, *Commissioner*

Wisconsin.gov

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
http://badger.state.wi.us/agencies/oci/oci_home.htm

May 25, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of

Farmers Town Mutual Insurance Company
Tomah, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on September 13, 1909, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the German Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws. In March, 1996, the articles were amended to change the company's address from Norwalk to Tomah and to add Jackson County to the company's territory.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Jackson, Juneau, La Crosse, Monroe, and Vernon

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of two years with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through four agents, three of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
New (all lines)	6% Total 2-Year premium when written 9% as collected
Renewal (all lines)	9% as collected

Four board members are appointed to have authority to adjust losses, with one or two adjusting a loss depending on the size. Adjusters receive $25 for each loss adjusted plus $0.345/mile. Payment for any additional visits required is at the rate of $10.00/hour. When questions arise in the adjusting process, they are brought before the full board, which acts as the adjusting committee.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim until the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Howard Pingel	Retired Farmer	Tomah, WI	2004
Hugh Kenworthy*	Farmer	Tomah, WI	2002
Mary Jean Wolf	Secretary	Wilton, WI	2004
Darlene Wedemeier*	Treasurer, Farmer	Camp Douglas, WI	2002
Joe Flock	Retired Farmer	Cashton, WI	2003
Tom Mlsna	Retired Farmer	Cashton, WI	2003
Jeff Steinhoff	Farmer	Sparta, WI	2003
Pete Schmitz*	Farmer	Norwalk, WI	2004
Gary Von Ruden	Teacher	Ontario, WI	2002

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $40.00 for each meeting attended and $0.345 per mile for travel expenses. Officers receive $60.00 for each meeting attended.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Howard Pingel	President	$4,756
Hugh Kenworthy	Vice President	$10/hour
Mary Jean Wolf	Secretary	$16,800
Darlene Wedemeier	Treasurer	$4,524

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The full board acts as an adjusting committee, which meets the requirements of s. 612.13(4), Wis. Stat., that the company have an adjusting committee of at least 3 directors. The function of this committee is to adjust or supervise the adjustment of losses. There were no other committees at the time of the examination.

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$136,537	$99,946	646	$91,492	$1,510,712	$1,352,783
1997	139,260	66,541	643	115,264	1,664,359	1,465,688
1998	173,747	155,460	674	33,783	1,693,469	1,521,807
1999	171,566	131,901	681	60,525	1,792,147	1,585,128
2000	139,488	180,348	706	-21,614	1,774,903	1,579,378

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1996	$278,264	$136,159	$1,352,783	20.6%	10.1%
1997	316,862	161,023	1,465,688	21.6	11.0
1998	300,154	167,622	1,521,807	19.7	11.0
1999	337,146	178,395	1,585,128	21.3	11.3
2000	338,685	132,055	1,579,378	21.4	8.4

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$99,946	$35,615	$136,537	73%	26%	99%
1997	66,541	39,055	139,260	48	24	72
1998	155,460	48,984	173,747	89	29	119
1999	131,901	58,364	171,566	77	33	110
2000	180,348	70,707	139,488	129	54	183

In the five years since the prior exam, gross premiums written have increased by 21.7%, while net premiums written have declined by 3%. During the same period, surplus has increased by 16.8%. The company reported underwriting losses in three of the last five years, due to heavy incurred storm-related losses and associated loss adjusting expenses. In addition, the company's reinsurance premiums increased significantly in 2000, the result of significant loss payments recovered from the reinsurer. The lower amount of retained premiums, and higher operating expenses incurred due to high losses in 2000, contributed to the 54% expense ratio in

2000. Despite underwriting losses in ’98 – ’00, the company was able to post a positive net income in four of the last five years. 2000 was the exception, with the heaviest net losses incurred in over 10 years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2001
Termination provisions:	May be terminated any January 1, by either party providing at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Quota Share
	Lines reinsured:	All casualty business written by the company
	Company's retention:	None
	Coverage:	100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses, subject to maximum policy limits of $1,000,000 per occurrence.
	Reinsurance premium:	100% of premiums written with respect to the business covered under this contract
	Ceding commission:	15% of premium paid to reinsurer under this contract
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$200,000 on each and every risk
	Coverage:	Up to $800,000 on a pro rata basis
	Annual aggregate deductible:	The company retains the first 10% of losses and loss adjusting expenses otherwise recoverable under this contract
	Reinsurance premium:	The pro rata portion of all premiums, fees, and assessments charged by the company, corresponding to the amount of each risk ceded hereunder.
	Ceding commission:	15% subject to loss experience (minimum 15%; maximum 35%)

3.	Type of contract:	Class C-1 Excess of Loss (First Layer)
	Lines reinsured:	All property business written by the company
	Company's retention:	$25,000 in respect to each and every risk resulting from one loss occurrence
	Annual aggregate deductible:	First $25,000 of paid losses otherwise recoverable under this contract shall be retained by the company, subject to class D/E stop-loss reinsurance
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $25,000, subject to a limit of liability to the reinsurer of $50,000
	Reinsurance premium:	For each annual period, reinsurance premium is determined by taking the sum of the four years' losses incurred by the reinsurer divided by total net premiums written for the period multiplied by the factor of 100/80ths, subject to: Minimum rate: 6.00% of current net premiums written Maximum rate: 19.00% of current net premiums written The rate for the current annual period is 15%
4.	Type of contract:	Class C-2 Excess of Loss (Second Layer)
	Lines reinsured:	All property business written by the company
	Company's retention:	$75,000 in respect to each and every risk resulting from one loss occurrence
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $75,000, subject to a limit of liability to the reinsurer of $125,000 in respect to each and every loss occurrence
	Reinsurance premium:	6.00% of the company's net premiums written in respect to the business covered hereunder; annual deposit premium of $14,400. Minimum premium: $12,000.
5.	Type of contract:	Class D/E Stop-Loss Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	80% of the company's net premiums written, subject to a minimum net retention of $139,500.
	Coverage:	Reinsurer shall indemnify the company for 100% of the amount, if any, by which the aggregate of the company's losses during any annual period during which this contract

	is in effect exceeds an amount equal to 80% of the company's net premiums written.
Reinsurance premium:	For each annual period, calculated as the sum of the losses incurred by the reinsurer under this contract in the eight years preceding the year just concluded, divided by the total net premiums written for the same period, multiplied by the factor 100/80ths Minimum rate: 6.00% of current net written premium Maximum rate: 25.00% of current net written premium The rate for the current period is 15% Annual deposit premium: $36,000. Minimum: $30,000

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Farmers Town Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited in Checking Account	$ 11,565			$ 11,565
Cash Deposited at Interest	1,257,522			1,257,522
Stocks or Mutual Fund Investments (at Market)	402,390			402,390
Premiums and Agents' Balances In Course of Collection	3,975			3,975
Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due	33,099			33,099
Investment Income Due or Accrued		18,830		18,830
Reinsurance Recoverable on Paid Losses and LAE	45,266			45,266
Electronic Data Processing Equipment - Excluding Software (Cost Less Accumulated Depreciation)	2,256			2,256
Furniture and Fixtures	631		631	
Software	2,024		2,024	
TOTALS	$1,758,728	$18,830	$2,655	$1,774,903

Liabilities and Surplus

Net Unpaid Losses	$ 7,250
Unpaid Loss Adjustment Expenses	4,654
Fire Department Dues Payable	84
Net Unearned Premiums	145,134
Reinsurance Payable	37,420
Amounts Withheld for the Account of Others	589
Payroll Taxes Payable	394
TOTAL LIABILITIES	195,525
Policyholders' Surplus	1,579,378
TOTAL	$ 1,774,903

Farmers Town Mutual Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	$ 139,488
Deduct:	
Net Losses Incurred	161,751
Net Loss Adjustment Expenses Incurred	18,597
Other Underwriting Expenses Incurred	70,707
Total Losses and Expenses Incurred	251,055
Net Underwriting Gain (Loss)	(111,567)
Net Investment Income:	
Net Investment Income Earned	87,329
Total Investment Income	87,329
Other Income:	
Miscellaneous Income	2,624
Net Investment and Other Income	89,953
Net Income (Loss)	($21,614)

Farmers Town Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the 5-Year Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$1,249,381
1996		
Net income (loss)	$ 91,492	
Net unrealized capital gains or losses	14,549	
Change in nonadmitted assets	(2,639)	
Change in surplus as regards policyholders for the year		103,402
Surplus as regards policyholders, December 31, 1996		1,352,783
1997		
Net income	$115,264	
Net unrealized capital gains or losses	(5,456)	
Change in nonadmitted assets	3,097	
Change in surplus as regards policyholders for the year		112,905
Surplus as regards policyholders, December 31, 1997		1,465,688
1998		
Net income	$33,783	
Net unrealized capital gains or losses	18,536	
Change in nonadmitted assets	3,800	
Change in surplus as regards policyholders for the year		56,119
Surplus as regards policyholders, December 31, 1998		1,521,807
1999		
Net income	$60,525	
Net unrealized capital gains or losses	1,240	
Change in nonadmitted assets	1,556	
Change in surplus as regards policyholders for the year		63,321
Surplus as regards policyholders, December 31, 1999		1,585,128

2000

Net income	($21,614)	
Net unrealized capital gains or losses	16,765	
Change in nonadmitted assets	(901)	
Change in surplus as regards policyholders for the year		(5,750)
Surplus as regards policyholders, December 31, 2000		1,579,378

Reconciliation of Policyholders’ Surplus

There were no adjustments to policyholders’ surplus and no reclassifications as determined by the examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company comply with s. Ins 6.52, Wis. Adm. Code, by filing biographical sketches.

   Action—Compliance

2. Corporate Records—It is recommended that the company amend its agreements with its agents to include language regarding practicing good faith.

   Action—Compliance

3. Conflict of Interest—It is recommended that the company review its conflict of interest statement procedures to ensure that a statement is completed for each director annually and that appropriate records are maintained from one examination to the next.

   Action—Compliance

4. Underwriting—The company does not have a formal inspection procedure for both new and renewal business. It is suggested that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Compliance

5. Accounts and Records—It is recommended that the company properly cancel all paid invoices to ensure that duplicate payment is not made.

   Action—Compliance

6. Accounts and Records—The company does not have a formal escheats policy—and it has not had any uncashed checks that they were unable to resolve. However, it is suggested that the company establish a formal policy to handle uncashed checks and possible escheat funds.

   Action—Compliance

7. Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

   Action——Compliance

8. Bonds—It is recommended that the company develop an investment plan which specifies the characteristics or categories of investments that the company does and does not wish to invest in, taking into consideration the company's technical and administrative capabilities as regards investments and considering what investment practices are appropriate to its business, liquidity needs, and amount of surplus.

   Action—Compliance

9. Net Unpaid Losses—It is recommended that the company implement procedures to follow-up on open claims, setting time frames within which a claim should be settled, or an explanation documented in the file.

   Action—Compliance

10. Net Unpaid Losses—It is recommended that the company maintain a proper loss register in compliance with s. Ins 13.05(3)f, Wis. Adm. Code.

    Action—Compliance

11. Unearned Premium—It is recommended that the company comply with s. Ins 13.08(3), Wis. Adm. Code, in calculated the unearned premium reserve.

    Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 100,000
Errors & Omissions	1,000,000
Directors & Officers Liability	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. It is the company's policy to inspect all properties at policy inception, and every two years thereafter.

The examiner also reviewed a sample of policies that were cancelled during 2000 for compliance with s. 631.36 Wis. Stat. The examiner noted that there were several policies that were non-renewed by the policyholder, for which no cancellation notice was sent out. It is the company's policy to send out cancellation notices for all cancelled policies – including policies that are not renewed at the request of the policyholder. However, the agents do not always inform the company manager when a policyholder decides not to renew a policy. This puts the company at risk, as s. 631.36(4), Wis. Stat., states that the policyholder has the right to extend coverage if proper notice as described in the statute is not sent. A problem could arise if the company does not send the notice, because the policyholder could later demand to have coverage renewed even if the company may have decided to nonrenew the policy for underwriting reasons. It is recommended that the company send out policy cancellation notices for all canceled policies, including policies that are not renewed at the request of the policyholder.

Claims Adjusting

The full board acts as an adjusting committee, which meets the requirements of s. 612.13(4), Wis. Stat., that the company have an adjusting committee consisting of at least three directors. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computers daily and the backed-up data is kept in a fire-proof file. Once a week, an extra copy is sent with the treasurer to be kept at her home. The computer itself is protected through virus protection software, which is updated on a regular basis.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank.

Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employes of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$495,525
2.	Liabilities plus 33% of gross premiums written	307,291
3.	Liabilities plus 50% of net premiums written	261,553
4.	Amount required (greater of 1, 2, or 3)	495,525
5.	Amount of Type 1 investments as of 12/31/2000	1,256,090
6.	Excess or (deficiency)	$760,565

The company has sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest of any investment that does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company does not have any investments that are not in compliance with the new investment rule.

ASSETS

Cash and Invested Cash **$1,269,087**

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 11,565
Cash deposited in banks at interest	1,257,522
Total	$1,269,087

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 33 certificates of deposit in 15 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $48,757 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2% to 7.294%. Accrued interest on cash deposits totaled $18,830 at year-end.

Stocks and Mutual Fund Investments **$402,390**

The above asset consists of the aggregate market value of stocks held by the company as of December 31, 2000. Stocks owned by the company are located in the company's safety deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2000 on stocks and mutual funds amounted to $21,620 and were traced to cash receipts records. There were no accrued dividends at December 31, 2000.

Agents' Balances or Uncollected Premiums **$37,074**

This balance consists of amounts due from agents or policyholders at December 31, 2000, that are not in excess of 90 days past due at year-end (Premiums in the Course of Collection), and installments that were booked on policies effective in 2000, that were not yet billed as of year-end (Deferred Installments).

For Premiums in the Course of Collection, the examiner reviewed each receivable, verifying the amount due, the policy effective dates, and premium due date. The examiner also traced the subsequent receipt of the premium to the company's cash receipts records for January and February 2001. During this review, the examiner noted that there was one receivable that was over 90 days past due. The dollar amount of this receivable was not material; therefore, no adjustment was made. However, it is recommended that in future Annual Statements, the company properly non-admit the portion of Premiums in the Course of Collection that are greater than 90 days past due.

For Deferred Installments, the examiner reviewed the company's listing supporting this balance. The examiner compared a sample of policies against the in-force policy register, verifying policy number, policy effective dates, mode of payment, and premium written. The examiner then recalculated the amount of deferred premium based on the information obtained, and compared the recalculated amounts to the deferred installment balance on the company's listing. Several exceptions were found during the testing. However, the total of these exceptions was determined to be immaterial to surplus, so no adjustment was made.

Investment Income Due and Accrued **$18,830**

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Cash Deposited at Interest	$18,830

The examiner reviewed the company's cash receipts records for January through April, 2001, and totaled all investment income received in each month. The examiner concluded that the accruals at 12/31/00 were reasonable compared to the amounts actually received.

Reinsurance Recoverable on Paid Losses **$45,266**

The above asset represents recoveries due to the company from reinsurance on losses that were paid on or prior to December 31, 2000. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$2,256**

This asset consists of a computer and printer owned by the company at December 31, 2000. The examiner verified this asset by reviewing purchase documentation, and testing accumulated depreciation.

Equipment, Furniture, and Supplies **$2,655**

This asset consists of $2,655 of furniture and fixtures, and software owned by the company at December 31, 2000. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$7250**

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$146,307	$164,140	$17,833
Less:			
Reinsurance Recoverable on Unpaid Losses	139,057	156,890	17,833
Net Unpaid Losses	$ 7,250	$ 7,250	$ 0

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date, if any. The examiner noted that there were several losses incurred in 2000 which were not reported (or recorded) at year-end. However, the company met its stop loss attachment point for 2000, so the entire amount of these losses is recoverable from the reinsurer. As a result, the net development on 12/31/00 unpaid losses was zero.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly; however, it was difficult in many cases to determine if the claims were being paid promptly (as much of the documentation received in support of a claim was not date-stamped). In addition, the company does not have claimants sign a Proof of Loss when final payment is received, as indication that all information provided is true and correct, and that the claimant accepts the claim check as payment in full on their claim. It is recommended that the company institute a policy whereby a Proof of Loss signed by a claimant is required for all claims over a specified dollar amount (as determined by the company). It is recommended that the company date-stamp all documentation supporting losses claimed, as evidence that the company is responding to claims in a timely manner, in compliance with s. Ins 6.11 Wis. Adm. Code.

In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.

Unpaid Loss Adjustment Expenses **$4,654**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The company established this liability by taking actual loss adjustment payments made in January 2001, adding to this an estimate of unpaid loss adjustment expenses on known claims, and an estimate of unpaid loss adjustment expenses on unreported claims.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$145,134**

This liability represents the reserve established for unearned premiums. In accordance with s. Ins 13.08 (3), Wis. Adm. Code, this reserve is to be established as follows:

-2-year policies paid for the full 2 years: 75% first year, 25% second year of term

-2-year policies paid one year at a time – 50%

The examiner reviewed the company's calculation of this balance, and determined this liability to be adequately stated.

Reinsurance Payable **$37,420**

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions that occurred on or prior to that date. This balance was verified by reviewing the company's calculation of reinsurance payable at 12/31/00, and tracing this amount to subsequent payment.

Fire Department Dues Payable **$84**

This liability represents the fire department dues payable at December 31, 2000. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Amounts Withheld for the Account of Others **$589**

This liability represents employe payroll deductions in the possession of the company at December 31, 2000. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$394**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

As of December 31, 2000, the company reported assets of $1,774,903, liabilities of $195,525, and Policyholders' Surplus of $1,579,378. There were no examination reclassifications, nor were there any adjustments as a result of this examination

In the five years since the prior exam, gross premiums written have increased by 21.7%. During the same period, Net Premiums Written have declined by 3%, and Surplus has increased by 16.8%. The company reported underwriting losses in three of the last five years, due to heavy incurred storm-related losses and associated loss adjusting expenses. In addition, the company's reinsurance premiums increased significantly in 2000 – the result of significant loss payments recovered from the reinsurer in '98. Despite underwriting losses in '98 – '00, the company was able to post a positive net income in four of the last five years. 2000 was the exception, with the heaviest net losses incurred in over 10 years.

The current exam resulted in four new recommendations. The recommendations are summarized in the 'Summary of Comments and Recommendations' section of this report.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Underwriting—It is recommended that the company send out policy cancellation notices for all canceled policies, including policies that are not renewed at the request of the policyholder.

2. Page 23 - Agents' Balances—It is recommended that in future Annual Statements, the company properly non-admit the portion of Premiums in the Course of Collection that are greater than 90 days past due.

3. Page 25 - Claims Payments—It is recommended that the company institute a policy whereby a Proof of Loss signed by a claimant is required for all claims over a specified dollar amount (as determined by the company).

4. Page 26 - Claims Payments—It is recommended that the company date-stamp all documentation supporting losses claimed, as evidence that the company is responding to claims in a timely manner.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Don Gasser of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Kristin Forsberg
Examiner-in-Charge